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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended: May 31, 1992

Commission File Number 0-20224

JUL 15 1992

Salem Sportswear Corporation
(Exact name of registrant as specified in its charter)

(State or other jurisdiction of organization or incorporation)	(I.R.S. Employer Identification Number)
	02-0359850

One Delaware Drive
Salem, New Hampshire 03079
(Address of principal executive offices, including zip code)

(603) 893-8808
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),

YES X NO ___

and (2) has been subject to such filing requirements for the past 90 days.

YES ___ NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 13, 1992
Common Stock, par value $.01 per share	9,783,569

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Salem Sportswear Corporation

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SALEM SPORTSWEAR CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	August 31, 1991	May 31, 1992 (unaudited)
Current assets:		
Cash	$ 60,689	$ 27,460
Accounts receivable, less allowances for doubtful accounts of $276,000 at August 31, 1991 and $435,000 at May 31, 1992	10,139,790	17,661,461
Inventory	18,212,960	27,689,740
Prepaid expenses	449,007	1,070,535
Prepaid taxes	194,120	1,027,715
Deferred income taxes	55,000	378,000
Total current assets	29,111,566	47,854,911
Property, plant and equipment:		
Land	145,000	194,030
Building	866,079	866,079
Furniture, fixtures and equipment	3,383,813	4,385,495
Leasehold improvements	772,127	924,538
Construction in process	55,901	871,246
Property under capitalized leases	525,231	598,731
	5,748,151	7,840,119
Less accumulated depreciation	(1,206,429)	(1,767,997)
Net property, plant and equipment	4,541,722	6,072,122
Goodwill, net of amortization of $38,000 at August 31, 1991 and $152,000 at May 31, 1992	2,990,255	2,705,736
Other assets, net of amortization of $81,000 at August 31, 1991 and $323,000 at May 31, 1992	2,516,412	2,457,963
Total assets	$39,159,955	$59,090,732

The accompanying notes are an integral part of the consolidated financial statements.

SALEM SPORTSWEAR CORPORATION

CONSOLIDATED BALANCE SHEETS, Continued

LIABILITIES AND STOCKHOLDERS' EQUITY

	August 31, 1991	May 31, 1992 (unaudited)
Current Liabilities:		
Accounts payable	$11,181,931	$ 9,765,950
Accrued expenses	3,345,145	10,361,354
Current portion of long-term debt:		
Related parties	286,261	286,261
Other	255,798	741,987
Obligations under capital leases due within one year	112,028	75,939
Total current liabilities	15,181,163	21,231,491
Notes payable	8,862,535	20,711,178
Long-term debt, less current portion:		
Related parties	10,108,783	10,108,783
Other	1,546,814	1,845,131
Obligations under capital leases, less current portion	183,131	193,108
Other Liabilities	—	1,280,000
Common stock $.01 par value; authorized 25,000,000 shares; issued and outstanding 6,938,874 and 7,032,726 shares at August 31, 1991 and May 31, 1992, respectively	69,389	70,327
Additional paid-in capital	5,069,366	5,373,529
Accumulated deficit	(1,861,226)	(1,722,815)
Total stockholders' equity	3,277,529	3,721,041
Total liabilities and stockholders' equity	$39,159,955	$59,090,732

The accompanying notes are an integral part of the consolidated financial statements.

SALEM SPORTSWEAR CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(dollars in thousands, except share data)

	Predecessor(*) Three Months Ended May 31, 1991	Company Three Months Ended May 31, 1992	Predecessor(*) Nine Months Ended May 31, 1991	Company Nine Months Ended May 31, 1992
Net sales	$15,803	$29,337	$44,604	$81,165
Cost of sales	8,350	16,732	24,286	46,465
Gross margin	7,453	12,605	20,318	34,700
Selling, general and administrative expenses	5,279	8,692	14,867	24,330
Amortization expense	--	118	--	355
Relocation expense	--	--	--	1,350
Nonrecurring charges	--	--	--	5,570
Income from operations	2,174	3,795	5,451	3,095
Other income and expense:				
Interest expense, net	291	778	859	2,315
Other (income), expenses, net	23	58	(89)	153
Income before income taxes	1,860	2,975	4,681	727
Provision for income taxes	593	1,160	1,749	284
Net income	$1,267	$1,815	$2,932	$443
Net income per share	$0.18	$0.25	$0.42	$0.06
Weighted average number of common shares outstanding	6,936,761	7,359,490	6,936,761	7,359,490

(*) Presents financial data for the Company's predecessor for periods before the merger transaction described in Note 2.

The accompanying notes are an integral part of the consolidated financial statements.

SALEM SPORTSWEAR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Predecessor(*) Nine Months Ended May 31, 1991	Company Nine Months Ended May 31, 1992
Cash flows from operating activities:		
Net income	$ 2,931,534	$ 443,513
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	293,631	944,880
Changes in assets and liabilities:		
(Increase) in accounts receivable	(2,016,985)	(7,521,671)
(Increase) decrease in inventories	892,189	(9,476,780)
(Increase) decrease in prepaid expenses	(202,741)	(621,528)
(Increase) decrease in prepaid taxes	349,512	(833,595)
Increase (decrease) in accounts payable	(330,969)	(1,415,981)
Increase (decrease) in accrued expenses	(914,238)	7,016,209
Increase (decrease) in income taxes payable	336,012	—
(Increase) in other assets	(44,684)	(12,360)
(Increase) decrease in deferred taxes	92,899	(323,000)
Increase (decrease) in deferred revenue	(57,749)	—
Increase in other liabilities	—	1,280,000
Net cash provided by (used in) operating activities	1,328,411	(10,520,313)
Cash flows from investing activities:		
Capital expenditures, net	(1,151,068)	(2,119,950)
Payment for purchase of All Star Mfg., Inc.	(80,000)	—
Net cash used in investing activities	(1,231,068)	(2,119,950)

(*) Presents financial data for the Company's predecessor for periods before the merger transaction described in Note 2.

The accompanying notes are an integral part of the consolidated financial statements.

SALEM SPORTSWEAR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	Predecessor(*) Nine Months Ended May 31, 1991	Company Nine Months Ended May 31, 1992
Cash flows from financing activities:		
Net borrowing (repayments) under line of credit agreement	(1,220,025)	11,848,643
Proceeds from borrowings of short-term debt	40,560	572,401
Proceeds from borrowings of long-term debt	1,432,440	1,536,476
Principal payments on short-term debt	(21,822)	(131,454)
Principal payments on long-term debt	(245,608)	(1,119,423)
Principal payments on capital lease obligations	(32,201)	(99,609)
Net cash provided by (used in) financing activities	(46,656)	12,607,034
Increase (decrease) in cash	50,687	(33,229)
Cash, beginning of period	46,509	60,689
Cash, end of period	$ 97,196	$ 27,460
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 872,003	$ 2,157,593
Income taxes	1,053,939	1,440,111
The Company purchased all of the capital stock of All Star Mfg., Inc. for $80,000. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of assets acquired	$ 734,315	—
Cash paid for the capital stock	80,000	—
Liabilities assumed	$ 654,315	

(*) Presents financial data for the Company's predecessor for periods before the merger transaction described in Note 2.

On June 1, 1991, as part of the merger discussed in Note 2, the Company issued $5,000,000 (50,000 shares) of 8% cumulative redeemable preferred stock (see Note 3), $4,250,000 of subordinated debt, and 4,517,500 shares of common stock to several investors.

The accompanying notes are an integral part of the consolidated financial statements.

SALEM SPORTSWEAR CORPORATION

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Nature of Business.

Salem Sportswear Corporation (the "Company" or "Salem") is a leading domestic designer, manufacturer and marketer of sports apparel under licenses granted by the NBA, MLB, the NFL and the NHL, professional players and many American colleges and universities. The Company sells a wide variety of quality sportswear, including T-shirts, sweatshirts, shorts, light outerwear, and other leisure garments.

The Company's principal product line is marketed under the Salem trademark and includes a broad array of sports apparel featuring silk screened team insignia and images of professional athletes arranged in creative graphic designs. In 1991, the Company expanded its product offerings to include a line of upscale garments marketed under the Front Row trademark, a separate line of sports apparel designed to sell at lower price points under the Official Fan trademark and a line of coordinated tops and bottoms for infants and toddlers sold under the Baby Salem trademark.

On June 3, 1992, a Registration Statement on Form S-1 with respect to the initial public offering of the Company's common stock was declared effective by the Securities and Exchange Commission under the Securities Act of 1933. The Company issued 2,750,000 shares in such offering and received net proceeds of approximately $31.5 million after deducting the underwriting discount and estimated expenses payable by the Company related to the offering.

2. Basis of Presentation.

All consolidated financial statements included herein, except for those as of and for the period ended August 31, 1991, are unaudited. In the opinion of management, the unaudited financial statements have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments (consisting only of normal recurring and certain non-recurring adjustments) necessary for a fair presentation of the financial position and operating results for the interim periods. Certain information and footnote disclosure normally included in the Company's annual financial statements have been omitted. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the entire fiscal year. Interim financial statements should be read in conjunction with the audited financial statements for the year ended August 31, 1991, which are contained in the Company's Registration Statement on Form S-1 referred to above.

In June 1991, a subsidiary of the Company merged with Salem Sportswear, Inc. (formerly Salem Screen Printers, Inc.). Salem Sportswear, Inc., a wholly-owned subsidiary of the Company (the "Subsidiary"), was the surviving corporation of the merger. As a result of the merger, the consolidated

statements of operations of the Company's predecessor for periods prior to June 1, 1991 are not compa.able to the consolidated statements of operations of the Company for periods subsequent to that date.

In the merger new investors acquired approximately 68% of the common stock of the Company, and therefore, in effect, a 68% ownership interest in the Subsidiary, for consideration of approximately $14,500,000, while the former owners of the Subsidiary in effect retained a 32% ownership interest in the Subsidiary (through the exchange of their common stock of the Subsidiary for approximately 32% of the common stock of the Company). The $14,500,000 consideration paid by the new investors to the Company consisted of $7,000,000 in cash, $5,000,000 of the Company's 12% Senior Subordinated Non-Negotiable Promissory Notes maturing in 1996 (the "12% Notes") and $2,500,000 in consideration of an agreement of the original stockholders of the Subsidiary not to compete with the business of the Company during the period of their employment and for three years thereafter. The consideration also included a contingent payment by Salem to two stockholders for a maximum of $5,000,000 based upon the achievement of predetermined earnings growth over the five years following the merger. In connection with the initial public offering of the Company's common stock, the contingent rights to such payments were converted into vested deferred compensation of $5,000,000, and the payments of bonuses to other key employees of the Company (also related to the merger) in the amount of $570,000 were accelerated. This total of $5,570,000 has been expensed in the nine months ended May 31, 1992. The merger and related Transactions are referred to herein as the "1991 Transaction."

Also in connection with the 1991 Transaction, the Company issued to the former owners of the Subsidiary approximately $1,145,000 of its 12% Senior Subordinated Promissory Notes, due in four equal annual installments commencing June 25, 1992 (the "Stockholder Notes"), evidencing indebtedness previously outstanding to them on account of working capital loans to the Subsidiary.

In exchange for a total investment of $9.5 million with respect to the 1991 Transaction, certain investors were issued, or obtained the right to acquire, an aggregate of approximately 4,517,500 shares of common stock, 50,000 shares of the Company's 8% cumulative redeemable preferred stock, liquidation value $100 per share, and $4.25 million in aggregate principal amount of the Company's 14 1/2% Subordinated Notes maturing in 1999 (the "14 1/2% Notes").

The 12% Notes, the 14 1/2% Notes and the Stockholder Notes were repaid with a portion of the proceeds from the Company's initial public offering.

3. Net Income Per Common Share.

As of April 9, 1992, the Company effected a 69.5-for-1 stock split as a stock dividend with respect to all shares of common stock outstanding on such date. Net income per common share is computed based upon the weighted average number of common and common equivalent shares outstanding. In accordance with the Securities and Exchange Commission Staff Accounting

Bulletins, common and common equivalent shares issued during the twelve-month period prior to the Company's initial public offering have been included in the calculation as if they were outstanding for all periods presented, using the treasury stock method. In addition, all 50,000 outstanding shares of the Company's 8% cumulative redeemable preferred stock, including accrued dividends to the date of exchange, which were exchanged for common stock upon the closing of the initial public offering on June 10, 1992, are treated as if exchanged for common shares for all periods presented. The exchange price of the preferred stock was equal to the initial public offering price of the common stock.

4. Inventory.

The components of inventory as of August 31, 1991 and May 31, 1992 consist of:

	August 31, 1991	May 31, 1992
Blanks in process	$ 6,345,221	$ 6,937,873
Blanks	7,065,321	14,168,337
Finished goods	4,802,418	6,583,530
	$18,212,960	$27,689,740

A blank is a completed garment that has been finished and dyed, but does not yet bear any decorative elements.

SALEM SPORTSWEAR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Three and Nine Months Ended May 31, 1992 and 1991

Net sales for the quarter ended May 31, 1992 increased 86% to $29.3 million from $15.8 million for the comparable quarter of fiscal 1991. Net sales for the nine months ended May 31, 1992 increased 82% to $81.2 million from $44.6 million for the comparable nine month period of fiscal 1991. These increases were primarily attributable to increased sales of the Company's Salem product line and further penetration of the Official Fan line into mass merchandisers. The Front Row product line was introduced in the fourth quarter of fiscal 1991 and has had a beneficial impact on the Company's sales in fiscal 1992.

The Company's gross profit increased 69.1% to $12.6 million for the quarter ended May 31, 1992 from $7.5 million for the quarter ended May 31, 1991, but decreased as a percentage of net sales from 47.2% to 43.0%. For the nine months ended May 31, 1992, the Company's gross profit increased 70.8% to $34.7 million from $20.3 million in the nine months ended May 31, 1991, but decreased as a percentage of net sales from 45.6% to 42.8%. The decreases in gross margin percentage were primarily attributable to a shift in product mix in the Salem line away from player identified products to team identified products, which generally have lower sales prices than player identified products. Gross margins on team identified products are generally lower than on player identified products. However, royalty payments (which are included in selling, general and administrative expenses) are also generally lower for team identified products.

Selling, general and administrative expenses increased 64.7% to $8.7 million for the quarter ended May 31, 1992 from $5.3 million in the comparable quarter of fiscal 1991, but decreased as a percentage of net sales from 33.4% to 29.6%. Selling, general and administrative expenses for the nine month period ended May 31, 1992 increased 63.7% to $24.4 million from $14.9 million in the comparable nine month period of fiscal 1991, but decreased as a percentage of net sales from 33.3% to 30.0%. The increases in selling, general and administrative expenses were primarily due to variable selling expenses, such as royalties and commissions, which increased as a function of increased net sales. The decreases of selling, general and administrative expenses as a percentage of net sales was primarily attributable to the fact that fixed general and administrative costs grew at a slower rate than sales. Selling, general and administrative expenses for the nine months ended May 31, 1992, as compared to the nine months ended May 31, 1991, were also affected by a shift in product mix from player identified products to team identified products. Team identified designs generate a single royalty payment (for use of team marks, including names, uniforms and other insignia), as compared to player identified

products which generate a double royalty (for use of team insignia and players' likenesses).

Income from operations for the quarter ended May 31, 1992 increased 75% to $3.8 million from $2.2 million for the comparable quarter of fiscal 1991. Income from operations for the nine months ended May 31, 1992 decreased 43% to $3.1 million from $5.5 million for the comparable nine month period of fiscal 1991. The increase in income from operations for the third quarter of fiscal 1992 was primarily attributable to the increase in net sales compared to the third quarter of fiscal 1991. The decrease in income from operations for the first nine months of fiscal 1992 was primarily attributable to $5.6 million of non-recurring charges consisting of (i) $5.0 million related to the conversion of contingent compensation due to two principal stockholders of the Company into vested deferred compensation and (ii) $570,000 of bonuses paid to key employees of the Company. Both the $5.0 million of contingent compensation and the $570,000 of bonuses related to the 1991 Transaction and the incurrence of non-recurring charges in the second quarter of fiscal 1992 were due to the fact that conversion and acceleration of these obligations was effected by the Company in February 1992, conditioned upon consummation of the Company's initial public offering. In addition, in the nine month period ended May 31, 1992, the Company incurred $1.4 million of costs related to the relocation of the Company's corporate offices and other operations from Salem, New Hampshire to Hudson, New Hampshire.

Interest expense for the quarter ended May 31, 1992, increased 164.6% to $770,000 from $291,000 for the comparable quarter of fiscal 1991 and rose as a percentage of net sales to 2.6% from 1.8%. Interest expense for the nine month period ended May 31, 1992 increased 157.9% to $2.2 million from $900,000 for the comparable nine month period of fiscal 1991. The increases reflect the issuance of the 12% Notes and 14 1/2% Notes in connection with the 1991 Transaction, the incurrence of bank indebtedness in connection with the 1991 Transaction and increased borrowings under the Company's working capital line of credit. These were partially offset by a decrease in the average interest rate on bank borrowings during the period. Subsequent to May 31, 1992, the Company used proceeds from its initial public offering to repay substantially all of its indebtedness.

The effective income tax rate for the nine months ended May 31, 1992, was 35.0% compared with 37.4% for the nine months ended May 31, 1991.

Net income for the quarter ended May 31, 1992 increased 43.3% to $1.8 million from $1.3 million for the comparable quarter of fiscal 1991. Net income for the nine month period ended May 31, 1992 decreased 84.9% to $443,000 from $2.9 million for the comparable nine month period of fiscal 1991. The increase in net income for the third quarter of fiscal 1992 was primarily attributable to the increase in net sales compared to the third quarter of fiscal 1991. The decrease in net income for the first nine months of fiscal 1992 was primarily attributable to the non-recurring charges and increase in interest expense described above.

Liquidity and Capital Resources

The Company maintains substantial inventory levels in order to be able to deliver products promptly to its customers. Rapid growth in the Company's sales has steadily increased the Company's requirements for working capital resources to support growth in inventory and accounts receivable. To date, Sales has satisfied its working capital needs with short- and long-term borrowings and with cash generated from operations. On May 31, 1992, the Company had a $23.0 million bank credit line of which $20.7 million was utilized as of that date. The line of credit agreement contains certain restrictive financial covenants which, among other things, require the Company to maintain certain minimum tangible capital base levels and interest coverage and debt to equity ratios. The Company was in compliance with all of the covenants as of May 31, 1992. Substantially all of the Company's indebtedness, including all outstanding advances under the existing bank credit line, was repaid out of a portion of the net proceeds from the Company's initial public offering. The Company is negotiating a new line of credit and expects that the new working capital line will be in place shortly. In the interim, the $23.0 million line continues to be available to the Company.

The Company's negative cash flow from operations in recent periods was primarily the result of increases in inventory and accounts receivable, and also of nonrecurring expenses, including special and contingent bonus payments to key employees and relocation expenses.

The Company's capital expenditures during the first nine months of fiscal 1992 were approximately $2.1 million. The Company expects capital expenditures for the balance of fiscal 1992 to be approximately $1.7 million.

The Company believes that its internally generated funds, borrowings under existing and anticipated credit facilities and the remaining proceeds from the initial public offering will be adequate for its liquidity and capital needs at least through fiscal 1993.

SALEM SPORTSWEAR CORPORATION

Part II

Other Information

Item 1. Legal Proceedings

The Company produces NBA player identified products under licenses with NBA Properties and USA Basketball. The license with NBA Properties includes a provision allowing NBA Properties to instruct the Company to cease within 70 days the production, sale and distribution pursuant to the license of player identified apparel bearing the likeness or attributes of any player who becomes inactive from the NBA or enters into an exclusive license agreement which conflicts with the rights granted under the license with NBA Properties. Earlier this year, NIKE, Inc. notified the Company that NIKE claimed that use of the likenesses of certain NBA players (the "NIKE Endorsers"), including the use of their caricatures, infringed on exclusive rights granted by those players to NIKE, Inc. However, NBA Properties has informed NIKE and the Company that NBA Properties continues to have the right to license the likenesses of NBA players for use on caricature T-shirts, based on certain exclusive rights that NBA Properties has obtained from the National Basketball Players Association. During February and March of this year, NBA Properties instructed the Company to cease the production, sale and distribution of all licensed articles (i) using Michael Jordan's likeness and other attributes (including caricature T-shirts) by March 31, 1992 and (ii) using the likenesses of 58 other NIKE Endorsers by April 14, 1992, with the exception of caricature T-shirts (which continue to be authorized by NBA Properties). In its capacity as the exclusive agent for USA Basketball, NBA Properties instructed the Company to cease shipping any licensed articles under Salem's license with USA Basketball, except for (i) individual player or team identified caricature T-shirts which do not bear the likeness of Michael Jordan and (ii) other licensed articles which do not bear the likenesses of the NIKE Endorsers who are members of the USA Basketball men's team. The Company chose to comply with these instructions. NBA Properties subsequently informed the Company that Michael Jordan and NIKE, Inc. consented to the inclusion of Michael Jordan's likeness in caricature T-shirts featuring all of the NBA player members of the USA Basketball men's team. Accordingly, the Company has commenced production and sale of this type of shirt and is featuring such shirts in connection with the 1992 Summer Olympics. Michael Jordan also has consented to the inclusion of his likeness in caricature T-shirts featuring members of the Chicago Bulls team in connection with that team's victory in the 1992 NBA championship. Pursuant to each of its agreements with NBA Properties and USA Basketball, the Company is entitled to be indemnified by the licensor with respect to any claims, demands, causes of action or damages (including attorneys' fees) arising out of the Company's use of the NIKE Endorsers' likenesses, including its continued sales of T-shirts bearing the caricatures of NIKE Endorsers other than Michael Jordan. There are no pending negotiations between the Company and NIKE, Inc. with respect to NIKE, Inc.'s claims, nor has there been any further communication from NIKE, Inc. to the Company with respect to such claims since February 1992.

However, no assurances can be given that NIKE, Inc. will not continue to assert such claims in the future.

The Company is a defendant in a lawsuit filed by the National Football League Players Association (the "NFLPA") on January 21, 1992 in the Superior Court of the District of Columbia. The Company was a party to two consecutive license agreements with the NFLPA which extended from April 1987 through March 1991, when the second license expired. The NFLPA's complaint alleges that the Company underreported or did not report gross sales of a number of products manufactured and sold pursuant to its licenses with the NFLPA, and therefore did not pay the full royalties due to the NFLPA. With respect to this claim, the NFLPA's complaint states that its damages are believed to exceed $200,000. The complaint also alleges that (i) the Company continued to sell its existing inventory of goods manufactured under the second license after it had expired; (ii) during the term of the license, the Company sought to secure permission to use NFL players' images, directly from the players and/or their agents, and thereby breached a provision of its agreement with the NFLPA that allegedly prohibited the Company from doing so; (iii) the Company tortiously interfered with exclusive group licensing agreements between the NFLPA and certain NFL players by securing or seeking to secure such rights directly from players; and (iv) the Company made unlawful use of the NFLPA's common law rights in its logo. With respect to each of these claims, the NFLPA is seeking permanent injunctive relief (except with respect to claim (ii)) and damages in an unspecified amount. The Company believes that it has meritorious defenses to the principal claims of the NFLPA. Although there can be no assurance that the Company will prevail on the principal claims in this litigation, the Company does not believe that any adverse outcome in this litigation would be likely to have a material adverse impact on the Company's business.

On June 12, 1992, Clothing With Attitude, Inc., a Michigan corporation, instituted a lawsuit against the National Basketball Association, NBA Properties, Inc. and the Company in the United States District Court for the Southern District of Michigan. In the litigation, plaintiff alleges that it designed a product line consisting of a red T-shirt, a unique "bull" caricature on the front of the shirt and the slogan "Real Men Wear Red"; that defendants misappropriated plaintiff's concept by licensing Salem to manufacture red T-shirts, the slogan "Real Men Wear Red", and the National Basketball Association trademarked Chicago Bull caricature, together with the words "Chicago Bulls"; and that as a result, plaintiff has been unable to effectively market and sell its originally designed T-shirts. The suit purports to state violations of the Federal antitrust laws, the Copyright Act, common law trademark infringement, common law unfair competition, and tortious interference with contractual and economic relations. The Company believes the suit is without merit. The Company was authorized by the National Basketball Association to manufacture and distribute the T-shirts, and it was licensed to use the slogan "Real Men Wear Red" by Costacos Brothers, Inc., a Washington firm, which had established trademark rights in the slogan prior to its use by plaintiff. The Company intends to defend the litigation vigorously.

The Company is not a party to any other material pending legal proceedings, other than ordinary routine litigation incidental to its business. The Company believes that none of these other proceedings if adversely determined would have a material adverse effect on the Company.

Item 2. Changes in Securities

For certain changes in the certificate of incorporation and By-laws of the Company, see Item 4 below. The rights of the holders of Common Stock of the Company, after giving effect to all changes described in Item 4 below, are summarized in the prospectus dated June 3, 1992, included as part of the Registration Statement on Form S-1 with respect to the Company's initial public offering, under the heading "Description of Capital Stock," which is incorporated herein by reference.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

Pursuant to a consent in lieu of special meeting dated as of April 8, 1992, the stockholders of the Company unanimously approved the filing of an amendment to the Company's Certificate of Incorporation, which amendment changed the name of the Company from Salem Screen Holding Corp. to Salem Sportswear Corporation and increased the authorized Common Stock of the Company from 110,000 shares to 25,000,000 shares.

Pursuant to a joint consent in lieu of special meeting of stockholders and the Board of Directors dated as of May 29, 1992, the stockholders of the Company unanimously approved the following matters:

1. Filing of an Amended and Restated Certificate of Incorporation to: (i) authorize 4,750,000 shares of undesignated preferred stock and 200,000 shares of Series A Junior Participating Cumulative Preferred Stock; (ii) adopt a "fair price" provision in connection with business combinations; (iii) authorize a staggered Board of Directors; and (iv) adopt certain general corporate provisions.

2. Amendment of the Company's By-laws with regard to certain general corporate provisions.

3. Affirmation of the appointment by the Board of Directors of Leonard G. Saulter as a Director of the Company.

4. Classification of the Board of Directors consisting of the following six persons:

Class I - ...ian A. Landman, Garth H. Greimann
Class II - Russell L. Epker, Leonard G. Saulter
Class III - Kyle K. Nagel and Keith A. Kennelly.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11.1 Computation of Net Income Per Share

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SALEM SPORTSWEAR CORPORATION

July 13, 1992
Date

John G. Demeritt, Treasurer
and Chief Financial Officer

SALEM SPORTSWEAR CORPORATION

EXHIBIT INDEX

Exhibit 11.1 Computation of Net Income Per Share

Salem Sportswear Corporation — Exhibit 11.1

Computation of Net Income Per Share

	Three Months Ended May 31,		Nine Months Ended May 31,	
	1991	1992	1991	1992
	Predecessor	Company	Predecessor	Company
Net income (in thousands)	$1,267	$1,815	$2,932	$443
Weighted average shares outstanding:				
Shares outstanding at the beginning of the period	8,340	0	8,340	0
Weighted average shares issued during the period	-	-	-	-
Adjustments to reflect requirements of the Securities and Exchange Commission:				
Assumed conversion to common stock of preferred stock from date of issuance (2)	-	431,069	-	431,069
Effects of SAB 83 (1)	6,928,421	6,928,421	6,928,421	6,928,421
Weighted average common shares outstanding	6,936,761	7,359,490	6,936,761	7,359,490
Net income per share	$0.18	$0.25	$0.42	$0.06

(1) In accordance with SEC Staff Accounting Bulletins, issuances of common stock and stock options one year prior to the intial filing of the company's registration statement on form S-1, at share prices below the public offering price of $12.50 per share ("cheap stock"), are considered to have been made in anticipation of the public offering . See Note 3 of the consolidated financial statements.

(2) Assumed the conversion of preferred stock to common stock as of the date the preferred stock was originally issued. Such preferred stock was exchanged upon the closing of the Company's initial public offering on June 9, 1992.